

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PETITION OF  
SIGMA GAS CORPORATION  
FOR APPROVAL OF FINANCING

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CASE NO. 96-252

O R D E R

IT IS ORDERED that Sigma Gas Corporation ("Sigma") shall file the original and 10 copies of the following information with this Commission with a copy to all parties of record within 10 days from the date of this Order. Sigma shall furnish the name of the witness who will respond at the public hearing, if one is held, to questions concerning each item of information.

1. Provide a complete copy of Sigma's application to the Department of Local Government ("DLG") and all correspondence generated or received by Sigma related to that application.
2. Is the arrearage for gas purchases that Sigma refers to in its application owed to Kentucky West Virginia Gas Company ("Kentucky West") or to Equitable Resources Energy Company ("Equitable")?
3. Explain how Sigma intends to pay the debt service on the proposed loan since Sigma incurred a \$74,434 net loss for the 12 months ended December 31, 1995. Provide all workpapers, assumptions, calculations and other documentation necessary to support your response.

4. Absent the addition of new customers, what would Sigma's revenue requirement need to be in order for the utility to meet its operating obligations and provide for equity growth?

5. If Sigma is relying upon customer growth as the source of funds to cover its costs of service including all debt service payments, provide an analysis that demonstrates that the necessary growth will occur in a manner that will allow Sigma to profitably operate and pay its vendors in a timely manner.

6. Has Sigma held any discussions with Kentucky West to try and work out a payment plan to settle the arrearage? If yes, discuss the status of the discussions. If not, why not?

7. Given the performance of the utility to date, provide a business plan that demonstrates that Sigma will be able to profitably operate in the future.

8. Discuss the impact of the utility being 100 percent debt leveraged including the impact on the utility's credit worthiness, the return that the shareholders should expect in this circumstance and any other problems this type of capital structure causes.

9. Reconcile the issuance date for each Long-Term Debt listed on page 7 of the 1995 Annual Report with the dates of issue listed in the April 17, 1996 letter from the DLG included as the last page of the application.

10. The Promissory Notes filed in Case No. 94-435<sup>1</sup> on September 28, 1995 indicate that Sigma is to make monthly installment payments into an escrow account

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<sup>1</sup> Case No. 94-435, The Petition of Sigma Gas Corporation for Approval of a Certificate of Convenience and Necessity to Construct Facilities and Approval of Financing, Order Dated August 22, 1995.

maintained by the DLG. State how many monthly payments on each debt should have been made to the escrow account up through May 31, 1996 and how many payments Sigma has made. For any amounts which are delinquent explain why payment has not been made and when payment can be expected.

11. Sigma stated on page 2 of its application that, "A loan from GSRP is the only means available to finance this debt." Has Sigma considered equity investment as a source of financing the repayment of the arrearage to Kentucky West? If yes, explain why equity investment is not available to finance this debt. If no, explain why equity investment should not be considered an option available to finance this debt.

12. Sigma's current capital structure reflects that its debt outstanding exceeds its assets by \$133,348. Given this, what unmortgaged assets can Sigma use to secure the proposed debt?

13. Provide a monthly analysis of the amounts paid by Sigma to Estill Branham for management services. For the same months also provide the amount of management fee Sigma would have paid had it paid Mr. Branham the amount found reasonable by the Commission in its December 15, 1993 Order in Case No. 93-349.<sup>2</sup> For any amounts paid in excess of that found reasonable in the Order, state why the excess amount was paid.

14. Sigma's 1995 Annual Report shows sales of 23,825 Mcf and gas purchases of 40,227 Mcf; in Case No. 93-349-B, for the 12 months ended December 31, 1995, Sigma shows sales of 18,509 Mcf and gas purchases of 36,375 Mcf.

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<sup>2</sup> Case No. 93-349, The Joint Application of Sigma Gas Corporation and Salyersville Gas Company, Inc. for Approval of the Acquisition of Assets of Salyersville Gas Company, Inc., Order Dated December 25, 1993.

- a. Explain the differences in these amounts.
  - b. Explain which of the numbers are correct.
15. Provide the monthly gas sales and the monthly purchase volumes, amounts billed, and amounts paid, by supplier, for 1994, 1995, and through May 1996. Supply copies of monthly invoices, indicating which were paid.
16. Explain the status of payment of gas bills for 1996 to each of Sigma's existing suppliers.
17. Why was Sigma's line loss so high during 1995?
18. What action did Sigma take to correct the line loss problem?
19. To what specific causes does Sigma attribute its inability to pay its gas bills? Estimate the dollar impact of each factor contributing to this inability to pay.
20. In its application Sigma states it "experienced an unexpectedly high line loss" in the use of an existing pipeline for 1995 and part of 1996.
- a. Was the "pipeline in use" the one commonly referred to as the G-39 pipeline previously owned by Inland Gas Company?
  - b. If yes, provide a map of the G-39 pipeline and depict the portion(s) from which the line loss occurred.
  - c. If Sigma's source(s) of line loss which led to the arrearage with Equitable was not the G-39 pipeline, provide a map of Sigma's distribution system, including the Cobra pipeline, and depict the area(s) from which the line loss occurred.
21. Who alleges present ownership of the G-39 pipeline? Did this party (or parties) allege ownership during the period November 1994 through January 1996?

22. In the monthly balance sheets that Sigma has filed with the Commission explain the nature of accounts receivable for "GEI" in the amounts of \$54,490 in 1995 and \$34,390 in 1994.

a. What is total amount of accounts receivable for "GEI" at present (through May 1996)?

b. Describe what steps Sigma has taken to recover these unpaid accounts.

c. Provide copies of invoices or other documentation which support the accounts receivable amounts through May 1996.

d. For each invoice or other document, designate on the map of the pipeline (provided in response to Item 19) the location of the work performed.

23. During the period November 1995 through January 1996 explain the working relationship between the alleged owner(s) of the G-39 pipeline and, Sigma Gas, KISU, and Devco.

24. For each month during the period November 1995 through January 1996 provide:

a. The number of customers billed by Sigma who were considered KRS 278.485 customers ("farm taps"). Were these customers directly connected to the G-39 pipeline or to lateral pipelines therefrom?

b. The number of customers who used gas supplied by Sigma but whose service account belonged to BTU Pipeline, Inc ("BTU"). Were these customers directly connected to the G-39 pipeline or to lateral pipelines therefrom?

c. The amount (Mcf) of gas sold to these customers and at what rate.

25. During the period November 1994 through January 1996, list by month the amount of any payments made to Sigma by BTU for gas delivered by Sigma to BTU's customers.

26. In Exhibit 1 of its application Sigma provides a copy of a letter from Equitable which states in part that absent payment or other arrangements Equitable "intends to ask our transporter to discontinue service to the Sigma Gas Corporation meter." To which Sigma meter is reference made and where is it located?

27. What is the status of Sigma's contract with Equitable?

28. Is it correct that Sigma currently purchases all its gas supplies from Alliance Gas Services and Global Environmental, Inc.?

29. In Exhibit 2 of its application Sigma provides a copy of the payment schedule relating to construction costs approved in Case No. 94-435. Provide a copy of each invoice submitted by "Walter Martin Excavating," "Al-Andy," "Arapaho Communication," and Consolidated Pipe and S."

30. Explain any changes in the route of the pipeline, sizes of pipe used for the construction, or other alterations from the project approved in Case No. 94-435, and the relationship these changes had to the increased construction costs incurred.

Done at Frankfort, Kentucky, this 20th day of June, 1996.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director